

City and County of San Francisco

Office of the Controller - City Services Auditor

OFFICE OF THE SHERIFF:

Financial Statement Audit of
the Mentally Ill Offender
Crime Reduction Grant II
From July 1, 2001, Through
June 30, 2004

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DIVISION**



*October 14, 2004
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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington

Controller

Monique Zmuda

Deputy Controller

October 14, 2004

Audit Number 04006

Michael Hennessey, Sheriff
Office of the Sheriff
City Hall, Room 456
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102

Dear Sheriff Hennessey:

The Controller's Financial Audits Division presents its financial audit report of the Statement of Grant Revenues and Expenditures and related schedules of the Mentally Ill Offender Crime Reduction Grant II (crime reduction grant) of the Office of the Sheriff (Sheriff) of the City and County of San Francisco for the period from July 1, 2001, through June 30, 2004. The financial statement presents the results of the crime reduction grant's operations for the audit period.

We found that the statement presents fairly, in all material respects, the results of the crime reduction grant's operations for the audit period in conformity with generally accepted accounting principles.

Respectfully submitted,

Ed Harrington
Controller

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CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER FINANCIAL AUDITS DIVISION

Ed Harrington

Controller

Monique Zmuda

Deputy Controller

INDEPENDENT AUDITOR'S REPORT

Sheriff Michael Hennessey, Chair
Executive Strategy Committee
Mentally Ill Offender Crime Reduction Grant II
City and County of San Francisco

We have audited the accompanying Statement of Grant Revenues and Expenditures of the Office of the Sheriff (Sheriff) of the City and County of San Francisco (City) in accordance with the State of California's Board of Corrections' Mentally Ill Offender Crime Reduction Grant II (crime reduction grant) Contract No. 009-01 for the period July 1, 2001, through June 30, 2004. This statement is the responsibility of the Sheriff's management. Our responsibility is to express an opinion on the Statement of Grant Revenues and Expenditures based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards (2003 Revision)*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Grant Revenues and Expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement of Grant Revenues and Expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Board of Corrections' Mentally Ill Offender Crime Reduction Grant II Contract No. 009-01 as described in Note 1 and is not intended to be a complete presentation of the City's or the Sheriff's revenues and expenditures.

In our opinion, the Statement of Grant Revenues and Expenditures referred to above presents fairly, in all material respects, the grant revenues and expenditures of the Sheriff's crime reduction grant in accordance with the State of California's Board of Corrections' Mentally Ill Offender Crime Reduction Grant II Contract No. 009-01 for the period from July 1, 2001, through June 30, 2004, in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards (2003 Revision)*, we have also issued a report dated October 14, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with applicable laws, regulations, contracts, and grant. That report is an integral part of an audit performed in accordance with *Government Auditing Standards (2003 Revision)*, and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement of Grant Revenues and Expenditures taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the Statement of Grant Revenues and Expenditures. Such information has been subjected to the auditing procedures applied in the audit of the Statement of Grant Revenues and Expenditures and, in our opinion, is fairly stated in all material respects in relation to the Statement of Grant Revenues and Expenditures taken as a whole.

In connection with this audit, there are certain disclosures that need to be made in relation to *Government Auditing Standards (2003 Revision)*, by the United States Government Accountability Office (GAO). According to the new standards, auditors and audit organizations have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities in themselves, may lead to a situation that would violate provisions in the section pertaining to auditor independence. Specifically, an organizational impairment to independence may exist since Auditor-Controllers provide both audit and nonaudit services, and under the new GAO standards, it is not generally appropriate for an audit organization to perform both audit and selected nonaudit services for the same client.

The Controller is the Auditor-Controller for the City and County of San Francisco, and personnel in different divisions carry out the functions of auditing, accounting, and financial reporting. These functions are necessarily separate and discrete tasks independently performed by personnel within their respective divisions; however, they ultimately report to the Controller who is the organizational head of the agency. We believe that the following safeguards and division of responsibility exist that would enable the reader of this report to rely on the information contained herein:

- The Financial Audits Division is not responsible for the input or reconciliation of any financial transactions.
- The Financial Audits Division is subjected to an independent peer review every 5 years.

Nevertheless, the reader of this report is to consider the above disclosure a qualification of scope that may have an effect on this report.

This report is intended for the information and use of the Sheriff's management, the Board of Supervisors, and the State of California's Board of Corrections. However, this report is a matter of public record and its distribution is not limited.



Noriaki Hirasuna, CPA
San Francisco, California
October 14, 2004

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
STATEMENT OF GRANT REVENUES AND EXPENDITURES

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

Revenues:

Mentally Ill Offender Crime Reduction Grant II Allocation	\$2,178,201
In-Kind Matching Funds	752,449
Cash Match	<u>1,709</u>

Total Revenues: \$2,932,359

Expenditures:

Salaries and Benefits	\$ 87,770
Services and Supplies	1,709
Professional Services	185,721
Community-Based Organization (CBO) Contracts	2,142,244
Administrative Overhead	86,041
Other-Facility Rent & Travel	<u>428,874</u>

Total Expenditures: \$2,932,359

Excess of Revenues over Expenditures: \$ 0

The accompanying notes are an integral part of this statement.

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
NOTES TO THE FINANCIAL STATEMENTS**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Mentally Ill Offender Crime Reduction Grant II (crime reduction grant) of the Office of the Sheriff (Sheriff) of the City and County of San Francisco (City) is prepared in accordance with generally accepted accounting principles (GAAP). The accounting and reporting framework and the more significant accounting principles and practices are described in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the crime reduction grant's financial activities for the period from July 1, 2001, through June 30, 2004.

(a) Financial Reporting Entity

The California Legislature established the Mentally Ill Offender Crime Reduction Grant (MIOCRG) Program to encourage and support the implementation of locally developed strategies for reducing the rate of crime, jail crowding and criminal justice costs associated with mentally ill offenders. Senate Bill 1485 (Chapter 501, Statutes of 1998) defined the program's goals and requirements. Senate Bill 2108 (Chapter 502, Statutes of 1998) provided \$27 million dollars to the State of California's Board of Corrections (State Board) to implement and administer the program. The Fiscal Year 1999/2000 State Budget Act (Chapter 50, Statutes of 1999) provided an additional \$27 million dollars for MIOCRG demonstration projects. The Fiscal Year 2000/01 State Budget allocated an additional \$50 million for the expansion of the MIOCR program. The Facilities Standards and Operations Division (FSOD) administers the crime reduction grant program.

Senate Bill 1485 stipulates that grant eligibility is contingent upon a county establishing a Strategy Committee chaired by the Sheriff or County Department of Corrections Director. At a minimum, this Committee must include the chief probation officer, the county mental health director, a superior court judge, representatives of a local law enforcement agency and mental health provider organization, and a client of a mental health treatment facility. The Strategy Committee is responsible for developing the county's local plan, which must identify the needs in the present system, the proposed goals for providing a cost-effective continuum of responses to mentally ill offenders, the roles of collaborations and/or partners in achieving those goals, and the specific outcome and performance measures for evaluating the effectiveness of the project.

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
NOTES TO THE FINANCIAL STATEMENTS *(Continued)***

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

In September 2000, in consultation with the State Department of Mental Health and State Department of Alcohol and Drug Programs, the State Board awarded non-competitive planning grants to all applicant counties for the development of a local plan outlining their response to mentally ill offenders. In March 2001, the State Board received 24 applications with accompanying local plans from 23 counties (one county submitted two proposals) competing for available demonstration grant funds. The State Board subsequently encumbered \$3,488,400 for the Sheriff, but in February 2003, pursuant to the Fiscal Year 2002/03 State Budget Act, the State Board reduced the amount of grant funding for the Sheriff to \$2,178,201.

The City has a long and successful history of providing collaborative and integrated approaches to achieving solutions that reduce crime and criminal justice costs for mentally ill offenders. In late 1998, the City brought together a multi-departmental Executive Strategy Committee to develop a local plan that would focus on the habitual offender who is mentally ill and who, because of a pattern of chronic recidivism, continually recycles through the criminal justice system.

The Executive Strategy Committee decided to focus on the mentally ill offender population that is released quickly from jail thus creating the foundation for a new program called Connections. Based on local needs, input from criminal justice and mental health experts, and recommendations in the literature, this new program was designed specifically to serve the City's mentally ill offenders.

Connections was a multi-agency collaboration that provided key services for mentally ill offenders. Specifically, Connections was a pre-trial diversion program that provided comprehensive mental health case management, housing, benefits counseling, and other support services to mentally ill offenders in lieu of incarcerative sentences. The goals of Connections were for clients to successfully complete their court case, obtain benefits and entitlements, get linked to community-based health and social services, and successfully complete a treatment plan co-developed by the Connections case manager and the client, which included immediate mental health interventions that allowed clients to reach the level of stability necessary to access mainstream services.

In addition to the impact on clients, Connections also sought to positively affect organizational relationships and create systems-level change with regard to the criminal justice and mental health systems. The innovative structure of the Connections program aimed to create linkages across traditional barriers to service, using the existing Sheriff's

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

release programs as its foundation. The two main organizational/systems-level goals were to break down the distinctions drawn between mental health people and criminal justice people, and to permit mentally ill offenders to be positively accepted as mental health clients in the community mental health system.

In addition to the criminal justice and mental health agencies that participated in providing Connections services, organizations that specialize in housing, benefits and entitlements, and employment training were also partners. All providers selected to participate in the collaboration were well-established community organizations noted for the creative and proactive services they offer to marginalized populations.

(b) Basis of Presentation - Fund Accounting

The financial transactions of the crime reduction program are accounted for in a special revenue fund within the City's basic financial statements, since the program's revenue received by the Sheriff is legally restricted to specific use. Money allocated and awarded to the Sheriff by the State Board for the crime reduction grant can be expended only for purposes authorized by the State Board's Contract Administration and Audit Guide.

(c) Basis of Accounting

The Sheriff uses the modified accrual basis of accounting for its fund. Under this basis of accounting, revenues are recorded when measurable and available. Measurable means the amount of the transaction can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

(d) Budgetary Control and Encumbrances

The Sheriff adopts an annual budget on a modified accrual basis of accounting. The budget is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes the services and activities to be provided during the fiscal year, the estimated resources and amounts available for appropriation, and the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation. Appropriations may be adjusted during the year with the approval of the Mayor and Board of Supervisors.

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

NOTE 2 – GRANT AMENDMENT

The Sheriff amended its grant to reflect the State Board's reduction in grant funds and, correspondingly, county match funding. The amendment also included a change in the original researcher and staff names and new mailing address, and a reduction in number of clients served by the program over two years. The State Board approved this amendment.

NOTE 3 – MATCHING FUND REQUIREMENTS

The original grant agreement required that the Sheriff spend cash matching funds of \$30,000 and/or provide in-kind matching funds of \$915,804, which when combined, met or exceeded the 25 percent minimum match obligation. Subsequently, under the terms of the amended grant, the State Board revised the amount of the cash matching fund to \$31,709 and the amount of the in-kind matching fund to \$558,863, which when combined, met or exceeded the 25 percent minimum match obligation of the grant. However, the Sheriff had already exceeded the amended grant in-kind match of \$558,863 at the time the State Board issued the amendment. Further, the State Board approved a program modification for the Sheriff to reallocate \$30,000 of the cash matching fund to the in-kind matching fund, resulting in a revised total allocation of \$1,709 for the cash matching fund and \$588,863 for the in-kind matching fund.

NOTE 4 – GRANT REVENUES

During the audit period, the Sheriff submitted 12 fiscal invoices to the State Board for reimbursement of program costs of \$2,178,201. However, the State Board is withholding the final reimbursement payment of \$217,820 as security, to be released upon the Sheriff's compliance with all grant provisions.

NOTE 5 – GRANT EXPENDITURES

The Sheriff's major expenditures consisted of \$1,500,603 of State funds paid to community-based organizations (CBO) under contract with the City. Of the total amount, the Sheriff paid \$229,813 to the Center on Juvenile and Criminal Justice, which expanded its misdemeanor court services, and provided specialized case management and peer advocacy for homeless

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

clients. The Community Vocational Enterprises, Inc. provided a vocational internship program including occupational therapy assessment, evaluation and consultation, and paid internships with instruction, support, bi-monthly evaluations and vocational referrals; the Sheriff paid \$117,890 to this CBO. Lutheran Social Services provided benefits advocacy, money management, and representative payee services to clients and the Sheriff paid it \$104,612. Progress Foundation provided a mental health team to provide assessment, case management, medications, linkage and referrals to appropriate community health services, and around the clock crisis response. The Sheriff paid Progress Foundation \$474,126 for its services. San Francisco Pretrial Diversion Project expanded its services to full time coverage for 20 courts, public defender, district attorney and probation staff to provide immediate in-custody intake interviews, follow-up and written reports. It also provided back-up and support to the mental health team at Progress Foundation. The Sheriff paid the San Francisco Pretrial Diversion Project \$533,687. Jail Psychiatric Services program staff worked closely with Connections staff to identify mentally ill offenders, and with appropriate releases, shared their client records with the Connections staff, in addition to providing medication management, individual and group therapy, and ongoing monitoring to mentally ill offenders. The Sheriff paid \$40,475 for Jail Psychiatric Services.

NOTE 6 – RECOMMENDED DISALLOWANCES

Progress Foundation billed the Sheriff for accrued vacation as part of its salary expenditures in June 2003; however it did not bill for the actual accrued vacation of the employees assigned to the crime reduction grant and in fact, overbilled the Sheriff by \$4,700. Further, San Francisco Pretrial Diversion Project billed the Sheriff for a total of \$1,365 in late charges that it paid to VAResources for equipment rental. However, late charges are not eligible project costs. We recommend that the State Board disallow a total of \$6,065 in grant expenditures.



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER FINANCIAL AUDITS DIVISION

Ed Harrington

Controller

Monique Zmuda

Deputy Controller

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Sheriff Michael Hennessey, Chair
Executive Strategy Committee
Mentally Ill Offender Crime Reduction Grant II
City and County of San Francisco

We have audited the Statement of Grant Revenues and Expenditures of the Office of the Sheriff (Sheriff) of the City and County of San Francisco (City), in accordance with the State of California's Board of Corrections' Mentally Ill Offender Crime Reduction Grant II (crime reduction grant) Contract No. 009-01 for the period from July 1, 2001, through June 30, 2004, and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards (2003 Revision)*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurances about whether the Sheriff's financial statement is free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards (2003 Revision)*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Sheriff in a separate letter dated October 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected.

within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal controls over financial reporting that we have reported to the Sheriff's management in a separate letter dated October 14, 2004.

This report is intended for the information and use of the Sheriff's management, the Board of Supervisors, and the State of California's Board of Corrections. However, this report is a matter of public record and its distribution is not limited.



Noriaki Hirasuna, CPA
San Francisco, California
October 14, 2004

REQUIRED SUPPLEMENTARY INFORMATION

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
SCHEDULE OF MATCHING FUND REQUIREMENTS**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

	Budget	Actual	Percent
City and County of San Francisco			
In-Kind Match			
Salaries and Benefits	\$ 62,626	\$ 62,626	
CBO Contracts	478,055	641,641	
Administrative Overhead	48,182	48,182	
Cash Match			
CBO Contracts	<u>1,709</u>	<u>1,709</u>	
Total Matching Funds:	\$ 590,572	\$ 754,158	26%
State of California Total Funds	\$ 2,178,201	\$ 2,178,201	74%
Total Costs	\$ 2,768,773	\$ 2,932,359	100%

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
SCHEDULE OF ELIGIBLE COSTS (BUDGET TO ACTUAL)**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

Budget Line Item	Budget	Expenditures	(Over) / Under
Salaries	\$ 87,770	\$ 87,770	\$ -
Services and Supplies	1,709	1,709	-
Professional Services	185,721	185,721	-
CBO Contracts	1,978,658	2,142,244	(163,586)
Administrative Overhead	86,041	86,041	-
Other-Rent & Travel	<u>428,874</u>	<u>428,874</u>	<u>-</u>
Totals	\$ 2,768,773	\$ 2,932,359	\$ (163,586)

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
SCHEDULE OF ELIGIBLE PROJECT COSTS**

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

Budget Line Item	State Costs Claimed	Costs Claimed for Cash Match	Costs Claimed for In-Kind Match		Total
			\$	\$	
Salaries and Benefits	\$ 25,144	\$ -	\$ 62,626	\$ 87,770	
Services and Supplies	-	\$ 1,709	-	-	1,709
Professional Services	185,721	-	-	-	185,721
CBO Contracts	1,500,603	-	\$ 641,641	\$ 2,142,244	
Administrative Overhead	37,859	-	48,182	86,041	
Other-Rent & Travel	<u>428,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,874</u>
Totals	\$ 2,178,201	\$ 1,709	\$ 752,449	\$ 2,932,359	

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE SHERIFF
MENTALLY ILL OFFENDER CRIME REDUCTION GRANT II
SCHEDULE OF RECOMMENDED DISALLOWED COSTS (STATE FUNDS)

GRANT PERIOD: FROM JULY 1, 2001, THROUGH JUNE 30, 2004

Budget Line Item	Total Costs Claimed	Costs Accepted	Recommended Disallowances
Salaries and Benefits	\$ 25,144	\$ 25,144	
Services and Supplies	-	-	
Professional Services	185,721	185,721	
CBO Contracts	1,500,603	1,494,538	\$ 6,065
Administrative Overhead	37,859	37,859	
Other-Rent & Travel	428,874	428,874	
 Totals	 \$ 2,178,201	 \$ 2,172,136	 \$ 6,065

cc: Mayor
Board of Supervisor
Civil Grand Jury
Budget Analyst
Public Library



